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FILED ELECTRONICALLY

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street SW
Washington, D.C. 20037

Re: Ex-Parte Contact:
CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, and 95-116.

Dear Ms. Salas:

On December 13, 2001, David Hostetter, Jeff Brueggeman, and Mike Tan, all of SBC Communications Inc. (SBC) met with Katherine Schroder, Jim Lande, Paul Garnett, Greg Guice, Ken Lynch, and Bill Scher of the Common Carrier Bureau regarding the above-captioned proceeding. The purpose of the meeting was to discuss SBC's position regarding carrier contributions to the universal service fund and the manner by which these contributions are recovered from end users.

SBC submitted a written presentation outlining its simplified proposal as well as its positions regarding the reform of universal service fund contribution and recovery.

Pursuant to § 1.1206(b)(1) of the Commission's rules, an electronic copy of this letter and the materials used during this meeting are being filed via the Federal Communications Commission's Electronic Comments Filing System. If you have any questions or concerns regarding this letter or the attached materials, please do not hesitate to contact me at (202) 326-8859.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. M. Tan", written in a cursive, stylized script.



Reform of Universal Service Contribution and Recovery Mechanisms

**SBC Communications, Inc.
December 13, 2001**

- Maintaining a Stable Funding Mechanism
 - Impacted by an evolving telecommunications marketplace
 - Potential for an eroding contribution base

- Lack of Uniformity in Recovery Mechanisms
 - Causes customer confusion
 - Raises questions of end user surcharge legitimacy

Principles for Competitively Neutral Funding and Recovery Mechanisms



- Rules for contribution and recovery should be simple. Complicated rules, by their very nature, create opportunities for regulatory arbitrage.
- A dollar spent with one carrier should generate the same universal service obligation as a dollar spent with another carrier, regardless of technology, platform, organizational structure, or carrier's position in the marketplace.
- Universal service recovery charges should not impact consumer choice of service providers.
- Rules governing contribution and recovery should be symmetric.
- The contribution base should be broadly defined.

Calculating the Contribution Factor



Current Method

Quarterly contribution factor is determined by dividing anticipated funding requirements for quarter by historical, gross-billed end user revenues.

SBC's Proposal

Annual contribution factor should be determined by dividing anticipated funding requirements for the year by historical collected end user revenues.

- Contribution factor is annual, with a semi-annual “true-up” trigger
- Historical = most recent, finalized 12 months of collected revenues
- Collected Revenues = collected payments from retail customers, less taxes and surcharges

Determining Carrier Contributions



Current Method

Carrier contributions are determined by applying quarterly contribution factor to historical, gross-billed end user revenues reported to the fund administrator. This yields a predetermined funding obligation that may have no relationship to current market conditions generally, or the specific carrier's market performance.

SBC's Proposal

Carrier contributions are determined by applying the contribution factor to current, collected end user revenues. Carriers remit monthly payments to USAC based on their collected interstate revenues.

- Carriers contribute immediately upon entering the marketplace.
- In the case of bundled services, carriers will be guided by the *CPE Bundling Order*.
- CLECs electing not to charge a EUCL/SLC should contribute according to a surrogate amount.

Recovery of USF Contributions from End Users



Current Method

Carrier contributions are recovered via surcharge mechanisms that vary on a carrier-by-carrier basis. These surcharge mechanisms, though generally higher as a percentage, bear no relation to the contribution factor determined by the Commission.

SBC's Proposal

Carrier contributions are recovered from end users via the uniform application of a surcharge on current, interstate end user charges, less taxes and surcharges. Carriers must apply a percentage-based surcharge that equates to the annual contribution factor established by the Commission.

- Surcharge percentage will be uniform and amount paid by end user will be based on consumption of interstate services.

Benefits of SBC's Proposal



- Contribution Factor
 - Annual factor reduces churn, administrative expense, and customer confusion
 - Ability to “true-up” when necessary helps to ensure fund sufficiency
- Carrier Contributions Based on Current Revenues
 - Ensures that carrier contributions are directly related to a carrier's market performance
 - Alleviates carriers' risk of non-recovery, thus incentive to adjust factor
 - Accounts for shifts in market share
- Recovery of Contributions via Prescribed Percentage
 - Reduces customer confusion, legitimizes surcharge
 - Ensures recovery is competitively neutral
 - Ensures equitable recovery of carrier contribution among end user classes

Problems with the *Proposed* Per Line Methodology



- Current proposals exempt the largest interstate providers from contribution obligations in violation of Section 254(d).
- Current proposals exempt non-conventional providers, in violation of the statute that “all” interstate providers contribute to universal service.
- Inequitable to end users with little or no consumption of interstate services
- Inequitable apportionment of USF obligations to interstate providers
- Requires inherently arbitrary equivalency ratios

Section 254(d) Mandate



“Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and non-discriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service.”

“The Commission may exempt a carrier or class of carriers from this requirement if....the level of such carrier’s contribution to the preservation and advancement of universal service would be de minimis.”

“Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.”